COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF GLENGARRY UTILITIES, INC., GLENGARRY SEWAGE TREATMENT PLANT, FOR AN ADJUSTMENT OF RATES PURSUANT TO THE ALTERNATIVE PROCEDURE FOR SMALL UTILITIES	CASE NO. 8690

O R D E R

On November 17, 1982, Glengarry Utilities, Inc., Glengarry Sewage Treatment Plant, ("Glengarry") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or $200,000 or less gross annual revenues to use the alternative filing method in order to minimize the necessity for formal hearings, to reduce the filing requirements, and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility and, therefore, results in a lower rate to the ratepayers.

Glengarry requested to increase its rate to produce additional annual revenues of $22,632 from its 339 customers located in the Glengarry Subdivision, Jefferson County, Kentucky. In this Order, the Commission has allowed additional revenues of $11,010.

There were no intervenors in this matter and no protests were entered. All information requested by the Commission has been submitted.

TEST PERIOD

To determine the reasonableness of the proposed rate, Glengarry has proposed and the Commission has accepted the 12-month period ending December 31, 1981, as the test period in this case.

REVENUES AND EXPENSES

Glengarry showed a net loss for the test period of $11,228. Glengarry proposed several pro forma adjustments to the test period revenues and expenses in order to reflect more current operating conditions. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Routine Maintenance Expense

Glengarry proposed a pro forma adjustment of $750 to reflect the increase in annual routine maintenance expense. On April 1, 1982, the routine monthly maintenance fee was increased from $500 to $600 by Andriot-Davidson Service Company, Inc. ("Andriot-Davidson"). The total annual increase in cost resulting from this increase is $1,200.

Mr. Carroll F. Cogan owns 100 percent of the stock of Andriot-Davidson and 100 percent of the stock of Glengarry. Therefore, the contract between these two entities is, by definition, not at arms length. In order to determine the reasonableness of the increased maintenance fee the Commission requested detailed information regarding the services provided, the basis for the determination of the monthly fee, and comparative information for all sewer plants serviced by Andriot-Davidson. Although objecting to the requested information, Glengarry filed a partial response to the request.

After a review of the information provided, the Commission is of the opinion that due to the failure to provide certain items of information requested, a determination can not be made that the increase in cost to Glengarry is reasonable. The information supplied by Glengarry in response to the Commission's Order of January 26, 1983, reflects that Andriot-Davidson provides routine maintenance services to 71 sewer treatment facilities at various monthly or annual fees. The Commission requested in item 2a the effective date of the routine maintenance fee and in item 2b the previous monthly routine maintenance fee. Glengarry failed to supply this information which would reflect whether similar price increases were implemented for other facilities serviced by Andriot-Davidson. The Commission was also unable to make any comparisons of the services being provided to the various facilities serviced by Andriot-Davidson due to the failure of Glengarry to file copies of contracts and annual data relating to actual services provided to each facility. In response to the Commission's request for documentation of negotiations with entities other than Andriot-Davidson for routine maintenance services, Glengarry filed only one estimate. Although this estimate was higher than the proposed fee to be charged by

Andriot-Davidson no information was supplied with regard to the services to be provided by the other entity for the price quoted. In response to the Commission's inquiry as to whether Glengarry had considered alternatives to contracting for the routine monthly maintenance, Glengarry responded in general terms that the costs of hiring someone and handling the paperwork for employment taxes would preclude that possibility.

The Commission is becoming increasingly concerned about the rising costs of sewer utilities and, with regard to sewer utilities owned by Mr. Cogan, the increasing complexity of intercompany transactions. The Commission is of the opinion and finds that Glengarry has not met its burden of proof that the increase in the routine monthly maintenance fee is reasonable and therefore has denied the additional cost for rate-making purposes herein. Therefore, an adjustment has been made to reduce the annual cost incurred during the test year by $450, to reflect the annual cost of routine plant maintenance at $500 per month which was the rate in effect prior to April 1, 1982.

Sludge Hauling

Glengarry's pro forma test year expenses included $4,095 for sludge hauling. C.F.S. Services, Inc., invoice number 2031 indicates that six loads of sludge were hauled for Glengarry during the month of December 1980 or prior to the test period and the cost was inappropriately included in test year expenses. Therefore, the Commission has reduced the sludge hauling expense by $630.[1/]

Purchased Power

Glengarry's test period expenses included $7,333 for purchased power. The Commission has deemed it appropriate to increase this operating expense by $550,[2] which represents the approximate annual percentage increase in rates granted to Louisville Gas and Electric Company in its recent electric rate adjustment.

Chemicals

Glengarry's projected cost of chemicals of $1,108 included $211 for drum deposits. Drum deposits are refundable and are not an operating expense. Therefore, the Commission has denied this portion of the test period expense for chemicals.

Maintenance of Treatment and Disposal Plant

An analysis of the individual invoices of $7,189 for test period maintenance of the treatment and disposal plant indicated there were duplicate payments made by Glengarry for a collector drive chain of $318, and backhoe work on the access road to the sewer plant of $75. Further examination of the invoices indicated Glengarry improperly expensed capital items of $5,510.[3] Therefore, the Commission has reduced test year maintenance of treatment and disposal expense by $5,903.

Agency Collection Fee

Glengarry projected expenses related to the collection of its bimonthly sewer bill by the Louisville Water Company of $1,847. The Commission has made an adjustment of $109 to increase this expense to reflect the apportionment of the joint service cost of the collection agency for each bimonthly bill of the customer which includes the charge for both water and sewer service.

Depreciation Expense

The Commission, in its disallowance of capital items of $5,510 included in the cost of maintenance of treatment and disposal plant, has allowed a pro forma depreciation adjustment of $1,836 computed on the basis of a 3-year service life of the property properly transferred to Account No. 373, Treatment and Disposal Equipment.

Insurance Expense

The Commission has reduced Glengarry's pro forma insurance expense by $259 to reflect only a 50 percent increase which the Commission finds reasonable in this case.

Miscellaneous General Expenses

During the test period Glengarry incurred finance charges of $1,726 from Andriot-Davidson. The finance charge is reported in Account No. 930, Miscellaneous General Expenses. The proper classification for this expense is to Account No. 430, Interest on Debt to Associated Companies. This expense has been disallowed and the Commission's findings are further discussed in the following section relating to other interest expense.

The Commission has further reduced miscellaneous general expenses by $48 and $4 respectively for non-recurring late payment penalties incurred during the test year from Compton, Kottke and Associates and the federal and state taxing authorities.

Interest Expense

The 1981 annual report reflected interest expense of $6,932 for the test period. Included in this amount was interest of $338 on notes payable to associated companies (over and above that misclassified in Account No. 930) and other interest expense of $1,285 on short-term notes outstanding. The purpose of these notes was to obtain funds to pay current operating expenses. The Commission's records reflect that Glengarry last requested rate relief in 1980. In 1980, the year subsequent to the Commission's decision in that case, Glengarry's financial position deteriorated to the point that it could no longer remain current on payments to suppliers. Glengarry's failure to request rate relief when this situation began to develop is a material reason the notes payable have reached the current level. The burden of obtaining sufficient revenues to pay operating costs rests with the management of Glengarry. The failure of Glengarry to seek sufficient revenues to cover its operating costs in prior periods does not justify the recovery of those costs from the present ratepayers. To allow Glengarry to recover these costs would constitute retroactive rate-making. Therefore, the Commission has excluded the interest on notes payable to associated companies and other short-term notes payable for rate-making purposes.

The allowed interest expense of $5,309 reflects the annual test period interest on long-term debt outstanding for the purchase of the system at original cost.

Therefore, Glengarry's adjusted operations at the end of the test period are as follows:

	Per Books	Adjustments	Adjusted
Operating Revenues	$ 40,975	$ -0-	$40,975
Operating Expenses	45,271	(5,623)	39,648
Operating Income (Loss)	$ (4,296)	$ 5,623	$ 1,327
Interest Expense	6,932	(1,623)	5,309
Net Income (Loss)	$(11,228)	$ 7,246	$(3,982)

REVENUE REQUIREMENTS

The Commission has used the operating ratio method as the basis in determining sewer rates in the past and has found it to be a fair and reasonable method to both the utility and its customers. The operating ratio method as used by the Commission is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses (Net of interest expense)} + \text{Taxes}}{\text{Operating Revenues}}$$

The Commission is of the opinion that a ratio of 88 percent is a fair, just, and reasonable operating ratio in that it will enable Glengarry to pay its operating expenses and provide an adequate debt service coverage with a reasonable return to the plant's owner. Therefore, the Commission finds that Glengarry is entitled to adjust its rates to produce total revenues of $51,985[4/] which includes federal, state and Jefferson County income taxes of $1,427. This results in an annual increase in revenue to Glengarry of $11,010.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rate proposed by Glengarry would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

2. The rate in Appendix A should produce gross annual revenues of approximately $51,985 from 339 customers located in the Glengarry Subdivision, Jefferson County, Kentucky, and is the fair, just and reasonable rate for Glengarry to charge for sewer service.

IT IS THEREFORE ORDERED that the rate in Appendix A be and it hereby is the fair, just and reasonable rate for Glengarry to charge for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Glengarry be and it hereby is denied.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Glengarry shall file with the Commission its tariff sheets setting forth the rate approved herein.

Done at Frankfort, Kentucky, this 8th day of July, 1983.

PUBLIC SERVICE COMMISSION

Chairman

Katherine Randall
Vice Chairman

Commissioner

ATTEST:

Secretary

FOOTNOTES

1. 6 loads X $105 per load = $630.

2. $7,333 X 7.5 percent (LG&E General Service Tariff Increase, effective March 1983) = $550.

3.

Invoice No.	Vendor	Amount
109-8	Andriot-Davidson	$1,556.16
00228	Custom Welding & Machine, Inc.	69.50
309-3	Andriot-Davidson	311.06
81550	Eubank, Hall & Associates, Inc.	222.80
508-3	Andriot-Davidson	879.00
0039	Custom Welding & Machine, Inc.	1,355.77
929-4	Andriot-Davidson	490.96
1209-4	Andriot-Davidson	624.75
Total		$5,510.00

4. $39,648 + $1,427 ÷ 88 percent = $46,676 + $5,309 = $51,985.

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8690 DATED July 8, 1983

The following rates are prescribed for customers served by Glengarry Utilities, Inc., Glengarry Subdivision. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

CLASSIFICATION OF CUSTOMERS	RATE
Residential	$11.48 per month
Commercial	100% of Water Bill